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FISCAL IMPACT STATEMENT

LS 6624

BILL NUMBER: HB 1175

NOTE PREPARED: Jan 1, 2004

BILL AMENDED:

SUBJECT: Local Employee Health Insurance and TRF Retirees.

FIRST AUTHOR: Rep. Adams

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill: (1) removes the two-year limitation on a surviving spouse's participation in a local unit's retired employee group health insurance program and reinstates surviving spouses who are eligible for coverage; (2) permits a retired member of the state Teachers' Retirement Fund (TRF) to assign benefits for paying dues to any association that proves to the TRF Board that the association has as members at least 50% of the number of active members of the Fund.

Effective Date: July 1, 2004.

Explanation of State Expenditures: *Part 2 - Assignment of Benefits:* There may be additional administrative costs (initially) associated with this change. The TRF reports that this provision will add approximately 3,000 members to the current total of about 30,000 members who avail themselves of this provision. The per unit cost for this is estimated to be \$1.10, or a total of \$3,300 for the newly added members. The fund affected is the Non-budget Administrative Fund for the TRF.

Explanation of State Revenues:

Explanation of Local Expenditures: *Part 1 - Elimination of Two-Year Limit on Health Insurance:* This provision would increase costs of health benefits provided to local unit public employees. However, the amount of the cost is unknown. Several factors contribute to the cost of this provision: (1) type of insurance provided; (2) number of surviving spouses that would no longer be eligible for health benefits due to the two-year limit; (3) adverse experience factor of retirees; and (4) number of school districts and political subdivisions which offer retiree health insurance.

It is unknown if local groups would absorb any additional costs resulting from this bill or pass the costs onto

employees in the form of higher deductibles, higher premiums, or by limiting other conditions covered. Cost sharing of health benefit premiums varies widely by locality. In addition, not all school districts and/or political subdivisions may offer retiree health benefits.

(1) *Type of Insurance Provided:* Local units that offer retiree health insurance may select from three options for employee/retiree health insurance. The school district and/or political subdivision may either be self-insured, purchase group insurance, or buy into the Local Unit Group (LUG) option of the state employee plan. Due to collective bargaining agreements, the insurance benefit plan and associated cost of insurance varies by school district and local unit. The annual premiums for the LUG option of the state employee plan average \$7,200 for single coverage.

(2) *Number of Surviving Spouses That Are No Longer Eligible for Health Benefits Due to Two-Year Limit:* The number of surviving spouses that are no longer eligible for health benefits due to the two-year time limit is unknown. The cost associated with this group is contingent upon the number receiving benefits and the adverse experience factor (see below). If an individual is allowed to remain in the benefit pool for a longer period of time, the total risk of the pool may increase. The increase in risk may result in higher premium costs for all individuals in the benefit pool. Eligibility for health benefits terminates when the individual becomes eligible for Medicare.

(3) *Adverse Experience Factor:* Current statute allows for local units to require the surviving spouse to pay the employer and employee share of health insurance cost. However, this cost does not include the adverse experience factor. Thus, the true cost of providing this benefit may result in higher premiums for the entire employee pool. Based upon early retiree data enrolled in the state employee plan, the adverse experience factor associated with retirees is equal to about 2.45, meaning that retirees account for \$2.45 in claims expenses for every \$1 in claims expenses experienced by the group as a whole. (Source: State Department of Personnel)

(4) *Retiree Health Insurance Offered:* The number of local units that offer retiree health insurance is unknown.

Background Information: There are 2,196 local units of government which include counties, townships, cities and towns, school districts, and libraries. The Indiana State Teachers' Retirement Fund (TRF) forecasts that there will be 35,196 retired plan members in 2004. This is a decrease of 1,707 members from 2003. The Public Employees' Retirement Fund (PERF) forecasts that there will 50,280 retired plan members in 2004, an increase of 1,406 from 2003. Of the 50,280, approximately 55%, or 27,464, will be political subdivision retired employees. The total number of these retired employees, both teachers and political subdivision employees, is estimated at 62,660. The number of surviving spouses associated with deceased retired teachers and retired local unit employees and who outlive their spouse by two years while not having achieved Medicare eligibility or having remarried is not known.

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected: School Corporations and other local units public employers.

Information Sources: Deborah Webb, State Department of Personnel, 317-232-8828; William Christopher, Director of TRF, 232-3869.

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